



China Sourcing Update

January 24, 2018

Energy Costs

1. Crude prices fall and then rise in December

In line with the movement of global crude prices, China's crude prices went down in early December and increased afterwards.¹ For instance, after dropping from US\$ 57.0 per barrel on 30 November to US\$ 54.8 per barrel on 7 December, the Daqing² crude price climbed to US\$ 58.6 per barrel on 26 December (*see exhibit 1*).

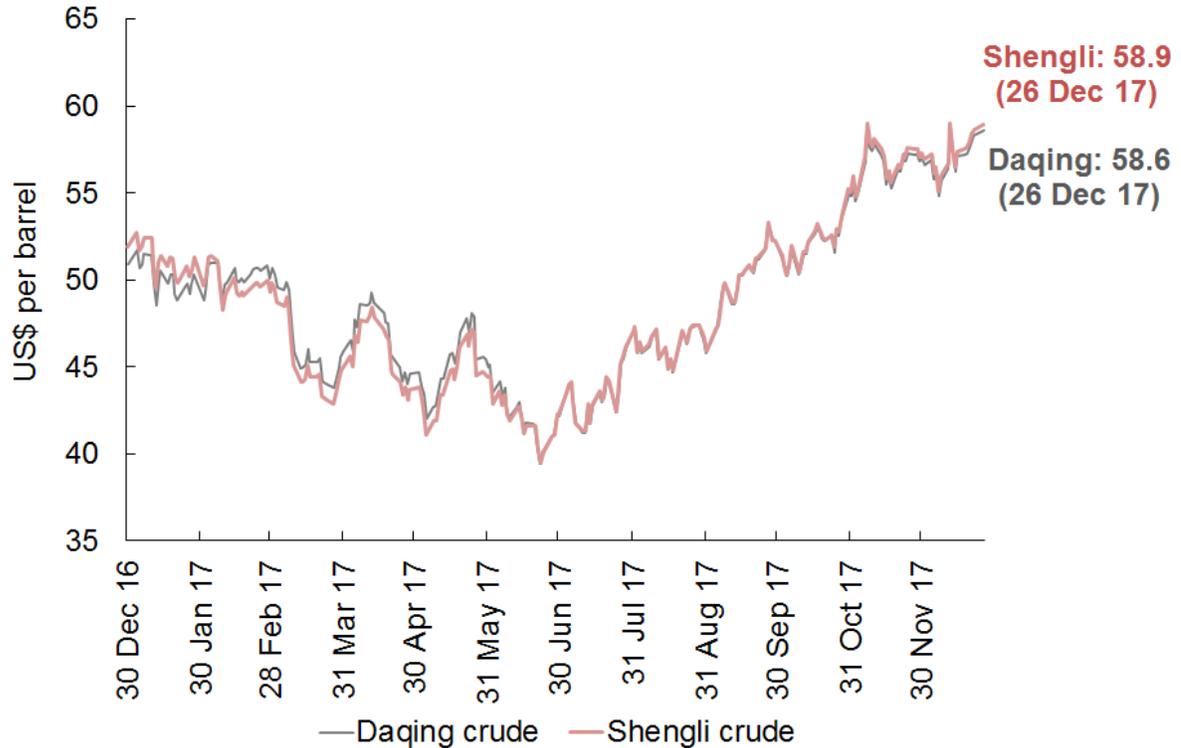
The jump in global oil prices during mid- to late December was triggered by supply disruptions in Europe and an easing oil supply glut in the US. The Forties Pipeline System (FPS), which carries about 40% of North Sea crude oil, was shut down for nearly three weeks due to a crack in a pipe, leading to tightening of crude supply in Europe in the period. Meanwhile, data from the US Energy Information Administration (EIA) showed that the commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) in the US fell for seven consecutive weeks, going down to a two-year low of 424.5 million barrels as of the week ending 29 December. The declining stockpiles of oil signal the easing of the oil supply glut in the US.

Looking ahead, we expect global oil prices to rise further in the near future as concerns over the global oil supply glut continue to wane.

¹ From the year 2000 onwards, China's crude prices were determined with reference to global crude prices.

² Daqing Field is the largest oil field in China.

Exhibit 1: China's crude prices, December 2016 to December 2017



Source: ifeng.com

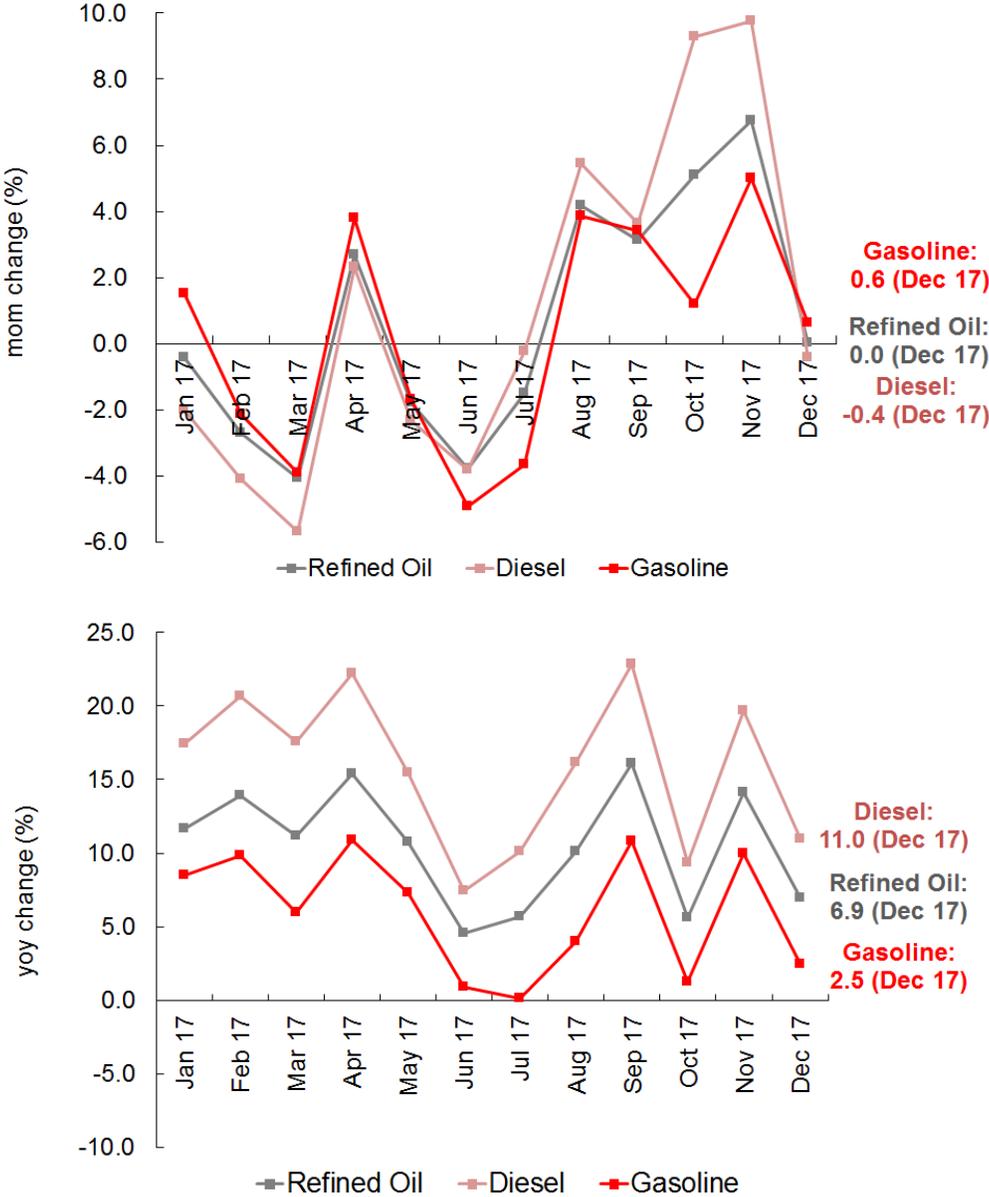
2. Wholesale price index of refined oil products stays flat in December

The wholesale price index of refined oil products stayed stable in December after surging by 6.8% mom in the previous month (see exhibit 2).³ Specifically, the wholesale price index of diesel edged down by 0.4% mom, while that of gasoline rose by 0.6% mom in December.

Looking ahead, we expect the wholesale price index of refined oil products to go up again in January 2018, as the National Development and Reform Commission (NDRC) raised the maximum prices of diesel and gasoline on 29 December 2017 and 13 January 2018 following a jump in global crude prices during mid-December 2017 to early January 2018. According to the pricing mechanism for refined oil products, the maximum prices of diesel and gasoline are adjusted every 10 working days, based on the change in a basket of global crude prices.

³ The index is compiled by the China Logistics Information Center (CLIC).

Exhibit 2: China's wholesale price indices of refined oil products, January to December 2017



Source: China Logistics Information Center

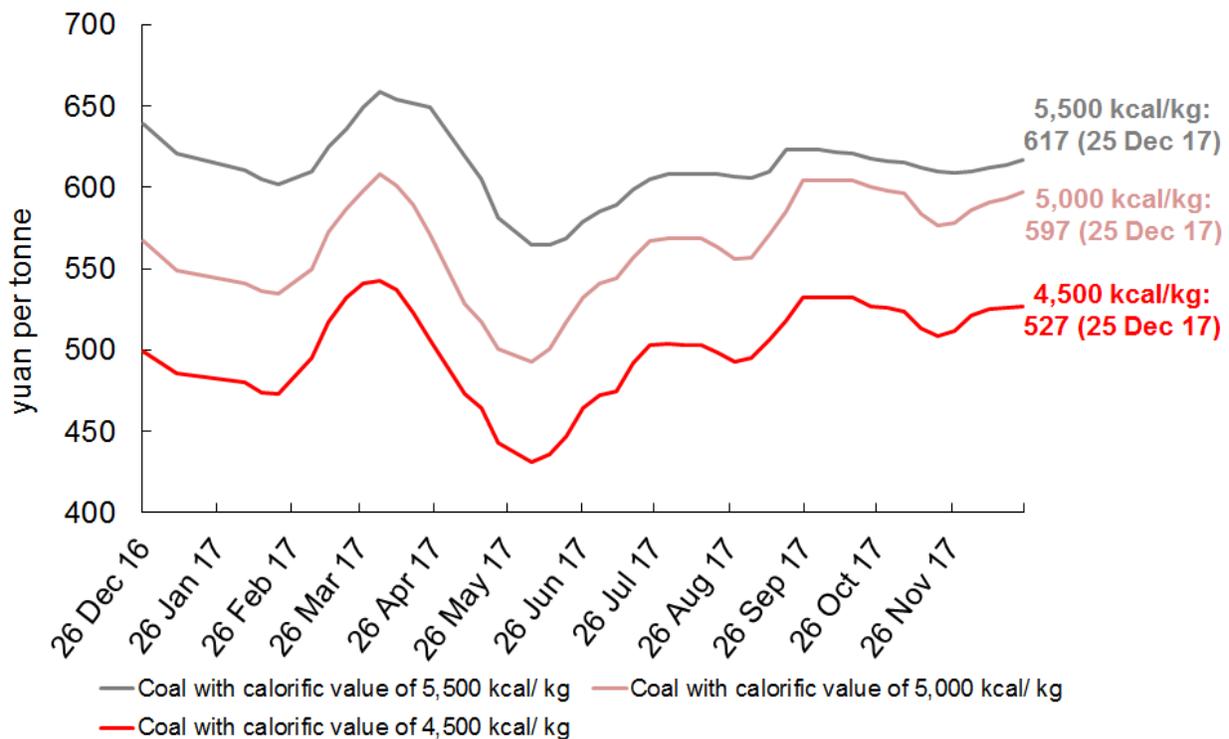
3. Benchmark Qinhuangdao coal prices advance in December

The benchmark Qinhuangdao coal prices went up in December (see exhibit 3). For example, the price of coal with calorific value of 5,500 kcal/ kg increased from 609 yuan per tonne on 27 November to 617 yuan per tonne on 25 December.

In our view, the rise in domestic coal prices in the month was triggered by a rise in the restocking demand for coal from power producers amid high power consumption.

Going forward, the demand for coal from power producers is likely to stay strong in the coming couple of months as the cold weather will support the heavy demand for heating. Therefore, we expect domestic coal prices to stay high in the foreseeable future.

Exhibit 3: Qinhuangdao coal prices, December 2016 to December 2017



Source: ifeng.com, cctd.com.cn

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